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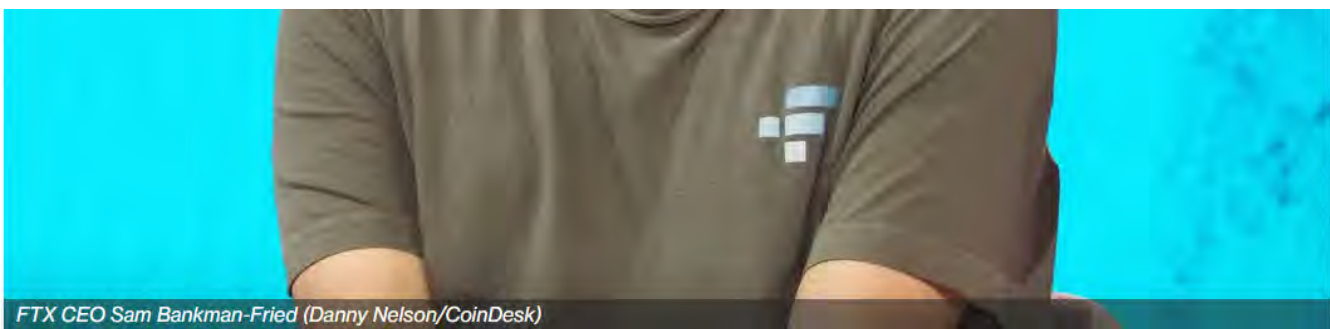
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8 Days in November: What Led to FTX's Sudden Collapse

Financier and influencer Sam Bankman-Fried flew exceptionally high during the pandemic-driven crypto bull market. Here's what led to his fall, and why it matters for the industry's future.

By David Z. Morris ⌚ Nov 9, 2022 at 10:59 p.m. UTC Updated Nov 10, 2022 at 10:48 p.m. UTC 🔒 Layer 2





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The past week has seen a dizzying downward spiral for Sam Bankman-Fried's huge crypto empire. Bankman-Fried's FTX crypto exchange has paused withdrawals, and a tentative bailout from rival Binance **appears to be kaput**. That could put depositor funds at risk, and certainly spells a major setback for not only Bankman-Fried but for the cryptocurrency industry as a whole.

These downfalls aren't rare in crypto, which is subject to extreme boom-bust cycles. But FTX and Bankman-Fried are unique in the stature they achieved before self-immolating. Over the past three years, FTX has come to be widely regarded as a reputable exchange, despite not submitting to U.S. regulation. Bankman-Fried has himself become globally influential, thanks to his thoughts on cryptocurrency regulation and his financial support for U.S. electoral candidates – not necessarily in that order.

These narratives about both FTX and Bankman-Fried are now clearly dead in the water, given recent evidence that everything **was not as it seemed** at the exchange, or at Bankman-Fried's other firm, Alameda Research.

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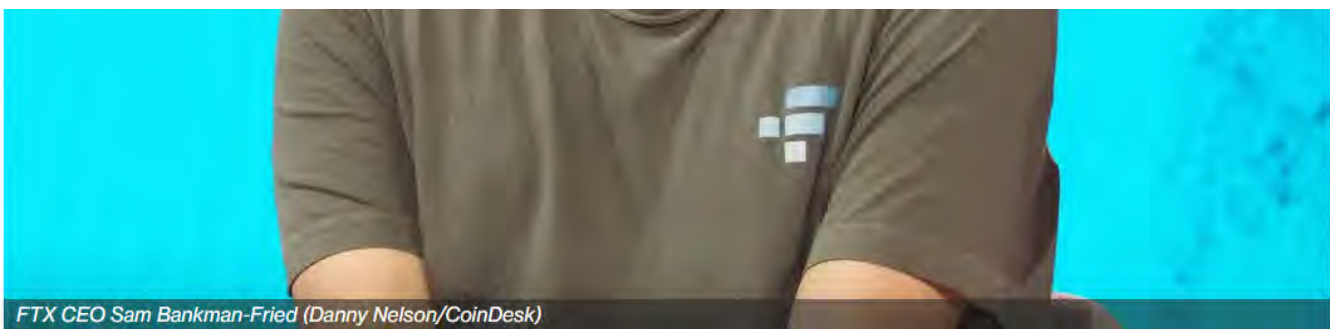
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The questions to answer in the coming days will be: What happened? And why did almost nobody see it coming?

What follows is the most important context for understanding this ongoing story. That includes the sudden crisis of confidence driven by revelations about Sam Bankman-Fried's accounting practices; the added shock of the unwind thanks to Bankman-Fried's golden-boy reputation; and the complex role of competitor Binance and its founder, Changpeng "CZ" Zhao, in the crisis.

A 'liquidity crunch' implies undisclosed risk

Facts first uncovered by CoinDesk played a major role in the events of the past week. On Nov. 2, reporter Ian Allison published findings that roughly **\$5.8 billion out of \$14.6 billion** of assets on the balance sheet at Alameda Research, based on then-current valuations, were linked to FTX's exchange token, FTT.



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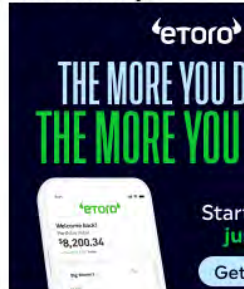
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This rush to the exits reportedly led Bankman-Fried and his team to begin frantically shopping for an acquisition partner, approaching a **variety of potential partners** before Binance entered the picture.

It remains worryingly unclear, though, exactly why even such a dramatic rush for the exits would have led FTX to seek its own bailout. The exchange promised users that it **would not speculate** with cryptocurrencies held in their accounts. But if that policy was followed, there should have been no pause to withdrawals, nor any balance sheet gap to fill. One possible explanation comes from Coinmetrics analyst Lucas Nuzzi, who has presented what he says is evidence that **FTX transferred funds to Alameda** in September, perhaps as a loan to backstop Alameda's losses.

The crisis also seemed to validate anxieties about what Alameda's immense holdings of FTT-linked assets meant for the stability of Bankman-Fried's empire. The market value of the token is **down more than 80%** over the past week.

Late in the day on Nov. 8, after the announcement of a tentative deal with Binance, FTX said it had **officially suspended all crypto withdrawals**.

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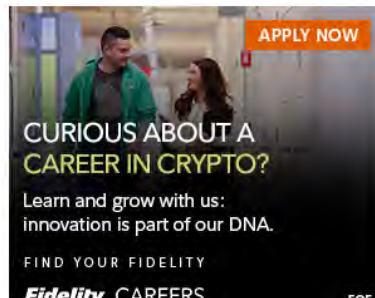
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As striking as the numbers are, the greater significance of FTX's collapse may be in how it upends a long-running narrative about SBF himself. As apparent frauds like Terra and Celsius unwound in the first half of 2022, triggering contagion across other crypto entities, Bankman-Fried was often seen both as a sane and sober counterpoint, and as a well-resourced backstop ready to rescue the entire ecosystem.

Bankman-Fried's endeavors included loans to or moves to acquire faltering **crypto lender BlockFi**, lender Voyager Digital and Anthony Scaramucci's Skybridge Capital hedge fund. Alameda Research also **led a funding round** for the Facebook-linked Aptos blockchain in late July, at a time when investment funds were drying up.

In his role as a funder of last resort, Bankman-Fried was frequently described, including by CoinDesk, as "**the J.P. Morgan of crypto**" – referring not to the Jamie Dimon-run investment bank, but to its robber-baron founder. Twice around the turn of the 19th century, in 1893 and 1907, **Morgan stepped in** to support emerging financial markets through a crisis with his own funds.



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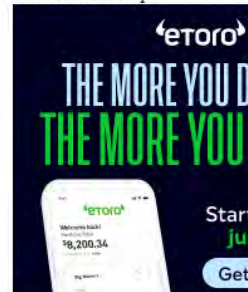
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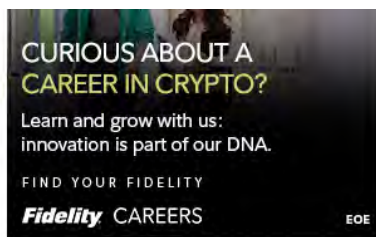
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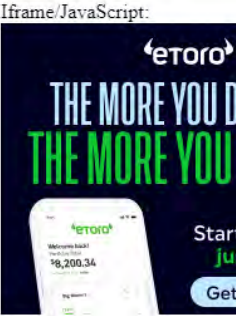


But there have been increasing signs that this framing was, at best, oversimplified. Bankman-Fried teased many more deals than actually went through, for instance backing out after a tentative move to acquire Celsius. Many of these deals arguably flowed money back to FTX or Alameda. And some of the headline numbers may have exaggerated exactly how much real money was on the line.

All of this is particularly relevant because of the profile Bankman-Fried has worked to build as a political influencer, both on general policy and crypto regulation specifically. Though the precise connection to this week's crisis is a bit opaque, Bankman-Fried faced a wave of blowback in late October over a series of crypto regulation proposals. He was also a major donor to the U.S. Democratic Party.

By one preliminary estimate, this week's disaster means Bankman-Fried is no longer a billionaire personally. That doesn't entirely preclude future political influence via donations, but it will certainly constrain him. More significant is that Bankman-Fried's credibility as a policy advisor, on finance or anything else, has been left in tatters – a washout for his "effective altruism" agenda.

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Frenemies: SBF and CZ

Easily the most fascinating element of the current debacle is the role of Changpeng "CZ" Zhao, founder and head of Binance, the world's largest centralized crypto exchange by volume. CZ and Bankman-Fried have been occasional collaborators over the past few years, but recent interactions have suggested rising interpersonal and business tension.

Zhao and Binance also materially contributed to FTX's meltdown – though it's unclear whether that was his intent. Apparently in reaction to CoinDesk's reporting about the predominance of FTT on Alameda's balance sheet, Zhao on Nov. 6 announced that Binance would liquidate a large remaining balance of FTT tokens distributed to it as part of a prior sell-off of FTX equity.

In a truly bizarre move, Alameda Research CEO Caroline Ellison quickly and very publicly offered Zhao an over-the-counter deal to buy the tokens at \$22 each. That's confounding both because the public offer seemed to expose anxiety within Alameda about the market impact of Binance's sale, and because Ellison's offer was slightly below FTT's public exchange price at the time – not exactly much incentive to help Alameda out.

Zhao initially framed Binance's sell-off as benignly as possible, insisting, "Regarding any speculation as to whether this is a move against a competitor, it is not."

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But later the same day, Zhao muddled that claim with a more barbed statement.

"Liquidating our FTT is just post-exit risk management, learning from LUNA," he wrote. "We gave support before, but we won't pretend to make love after divorce. We are not against anyone. But we won't support people who lobby against other industry players behind their backs. Onwards."

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The comparison to LUNA is particularly venomous, given that its creator, Do Kwon, is currently an international fugitive evading charges of financial fraud in South Korea. Zhao's allusion to lobbying efforts also give the impression that there's something personal at play here.

Zhao may have taken a dim view of a [since-deleted tweet](#) by Bankman-Fried that seemed to cast aspersions on Zhao's Chinese ancestry. Zhao is Canadian, and has for many years bridled at suggestions that Binance is a Chinese firm.

All of this has led to speculation that Zhao has been playing four-dimensional chess against Bankman-Fried and FTX. Zhao himself later described his announcement of a large FTT sale as "[the straw that broke the camel's back](#)," undermining confidence in FTX at a key moment. Zhao has denied ill intent or calculation, but this was hard to credit as of Nov. 8, with Binance poised to acquire a competitor after making moves that seriously weakened it.

Then came more CoinDesk reporting Wednesday morning, since confirmed by other outlets, that Binance would [likely back out of the deal](#) after a preliminary examination of FTX's finances. It may be some time until we fully understand exactly what Zhao saw when he got a peek behind the curtain – but it's probably nothing good.



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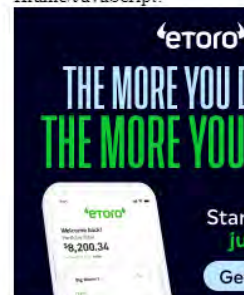
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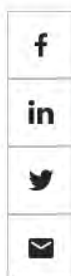


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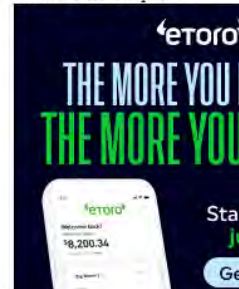
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